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DEPARTMENT FOR ISN/CTR

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SUBJECT: ISTC Governing Board Meeting in Moscow

11. SUMMARY: At the International Science and Technology Center (ISTC) Coordinating Committee (CC) and Governing Board (GB) meetings held in Moscow July 16-17, 2008, the GB approved funding for the first pilot institute self-sustainability plan. This marked an important milestone in ensuring that priority Weapons of Mass Destruction (WMD) institutes become financially self-sustainable. All parties agreed to press for the Russian Federation to confirm the tax-free status of the ISTC. Many long-standing issues were also resolved as the parties worked together to reach agreement on documents relating to export control, value-added tax (VAT) repayment, tax exemption, daily rates paid to scientists on regular projects, and procurement. During the Executive Session discussions, the parties agreed to begin negotiations on a plan to gain Russian financial contributions to the Center at the next Governing Board meeting in December. END SUMMARY.

12. Tax Issue: The parties discussed the issue of Russian repayment of VAT to the ISTC and the recent Russian decree listing organizations exempt from tax payments on grants. The GB agreed to send a letter to the Russian Federation on the issue. The ISTC will continue to attempt to reclaim VAT paid in recent years and will explore taking legal action against the Russian Federation if VAT is not repaid in a reasonable amount of time.

13. Russian Contributions: The U.S. Party, with the strong support of the Japanese and Canadians, stressed the importance of host-state (Russian) co-funding to ensure continuing support for the ISTC from funding parties. The U.S. explained that its Congressional hearings on the Department of Energy's scientist redirection program had been very clear on the need for increased cost sharing. The Japanese, Canadian, and the European Union (EU) delegation also expressed support for increased Russian contributions. The EU noted that the Russian Academy of Sciences has recently expressed interest in joint funding in the EU Framework Program. The Russian Party repeated its previous position that it makes in-kind contributions by providing the ISTC building and general support for the Russian institutes at which the vast majority of ISTC projects are conducted. (COMMENT: While the funding parties agree that these in-kind contributions should be counted towards any cost-sharing agreement, the USG view is that a significantly larger financial contribution is required to make Russia a true partner and to ensure the Center's long-term success. The ISTC's annual budget is approximately \$100 million and, at most, these Russian in-kind contributions amount to less

than \$4 million. END COMMENT) The parties agreed that the issue would be formally discussed at the next GB and that the ISTC Secretariat would prepare a paper on the issue.

¶4. Institute Self-Sustainability: The funding parties agreed to provide \$500,000 to fund the first pilot institute self-sustainability plan at the V. G. Khlopin Radium Institute. The parties discussed the correct maximum size of sustainability plans, but there was no consensus on U.S. and Japanese proposals to cap self-sustainability plans at \$500,000.

¶5. Daily Rates: The parties agreed to raise the daily rates paid to scientists on projects both in Russia and the Commonwealth of Independent States (CIS) countries, with the maximum daily rate of \$70 for project managers. The new daily rates will be applied to projects funded at future Governing Board funding sessions.

¶6. Export Control: After a discussion that included a senior Russian representative from the Federal Service for Technical and Export Controls, it was agreed that the Secretariat and the Russian Federation would continue bilateral discussions before proposing another document for GB approval on export control, including the issue of assurances from end users of technology developed during the course of ISTC-funded projects. The parties also agreed that all ISTC activities should strictly conform to Russian and international export control laws.

¶7. Procurement: In response to Deloitte & Touche's recommendations for improving procurement practices at the Center, the Secretariat had submitted a set of procurement rules to the CC meeting. The

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funding parties finally reached agreement on procurement rules after a year of discussions and asked that these new rules be applied to the procurement of equipment, materials, and services beginning August 1, 2008.

¶8. Project Funding: The U.S. committed \$168,000 in regular project co-funding for ISTC Regular Project No. 3849 "Low-Waste Decontamination."

¶9. Other Items: The GB approved the nomination of Ms. Anneli Pauli as the new EU Governing Board Member. The GB welcomed the new Japanese Deputy Executive Director Mr. Yasuhiro Yukimatsu. Also, this GB is the first for Adriaan van der Meer as ISTC Executive Director.

¶10. Next GB Meeting: The next GB meeting will be held in Moscow on 11 December 2008.

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